

# Tea Leaf

...weekly since 1976

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## Domestic ABCs

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This week's *Tea Leaf* is our semi-annual alphabetic view of the U.S. economy. Global ABCs will follow, presumably on May 30, 2007.

**America**—a somewhat tarnished image in many corners of the world. A resolution of the Iraqi situation hopefully sooner-rather-than-later will help restore our image

**Bush**—very low approval ratings limit his ability to get desired legislation passed. The President has his work cut out for him over the next 20 months to build a positive legacy. The good news? Tax cuts. The bad news? Iraq

**Consumer Confidence**—has remained reasonably high this year, despite the economic “headwinds” of prior Fed tightening and high energy costs. Confidence remains somewhat fragile, however, given anxiety about terrorism...especially on American soil...and soft home prices in mostly coastal markets

**Dollar (the)**—has weakened modestly in recent months, primarily versus the euro. In my view, additional modest weakness is actually welcome as it will help reduce our trade imbalance with the world

**Energy**—the U.S. imports a record 60% of the oil we use daily. A concern? Roughly 90% of the world's oil is in the hands of people who don't like us

**Federal Reserve**—on the monetary sidelines for nearly 11 months now, following seventeen 0.25% tightening moves between June '04 and June '06. Our best guess has the Fed being able to ease policy slightly in 2007's final quarter

**Global Economy**—strong growth remains the norm, despite high energy prices. Another year of real (inflation adjusted) growth above 4.0% now unfolding would be the strongest five-year period since the early 1970s

**Health Care**—one of the most important challenges in coming years as America deals with ever rising costs and a rapidly aging population. Tort reform is mandatory. Various health care experiments at the state level may show promise

**Inflation**—of rising concern during the past 18 months, tied to high energy and commodity prices. In my view, less of a concern down the road given intense competition, aggressive consumer behavior in getting “a better deal,” solid gains in productivity, and the cost-saving nature of the Internet

**Jobs**—the U.S. added nearly 7.4 million net new jobs during the past 40 months, although the pace has slowed in '07. A return to extremely tight labor availability in coming years is a given

**Knowledge—and the Ability to Think**—the key to individual success in an increasingly sophisticated economy. Ongoing education and training are now lifelong realities for many to be successful

**Leadership**—watch this one. Democratic leaders in the Congress seem more interested in attacking and embarrassing the President than actually getting anything done. If this continues, their reign could be short-lived. Remember the minimum wage increase promised by Pelosi? Still undone

**Merger & Acquisition Activity**—many deals are being done to take companies private...and therefore largely exempt from the costly Sarbanes-Oxley regulatory

burden. Congressional reform is sorely needed. The alternative is for the U.S. to continue to lose its position as the global financial center to London, Singapore, etc.

**National Debt**—our gross national debt at roughly \$9.0 trillion is 67% the size of annual U.S. economic output (GDP). The Japanese national debt is 150% the size of theirs. Ouch!

**Oil Prices**—around \$62 per barrel in recent days. The *consumer* in me wants to see gasoline prices well below \$3.00 per gallon. The *economist* in me would like to see oil prices around \$100 per barrel for 3-4 years. Such a price would provide a powerful incentive to get serious about conservation, renewable energy, better use of coal, nuclear, oil shale, etc.

**Politics**—childish and boorish behavior on both sides of the aisle in Washington is ridiculous...and all too typical. Is cooperation really that difficult?

**Quarterly Economic Growth**—expected to strengthen as '07 matures. The first quarter's 1.3% real (inflation adjusted) annual growth pace is likely to be revised lower on May 31. Current quarter growth seems closer to a 2.0% real annual rate. We see a 3.0% real growth pace by the end of '07 and in '08

**Retirement**—the term will take on new meaning in coming decades as more and more people “bridge the gap” (work two or three days a week) between working full-time and moving into full retirement. Most retirement-age Baby Boomers will prefer to keep one foot in the workplace for a long time to come

**Stocks**—our “aggressive as most any others” forecasts of stock prices continue to be exceeded by the Dow. We spell out reasons why gains will continue in our new book [\*\*\*econAmerica to be released by Wiley\*\*\*](#) next month

**Taxes**—Democrats will talk during the next two years about the need to repeal the Bush tax cuts. However, it likely won't happen. Why? The flow of tax revenue into Washington is absolutely astounding...and “if it ain't broke, don't fix it.” The budget deficit for FY2007 could be down to \$150 billion

**Unemployment**—averaged 4.6% last year and 4.5% so far in '07. The rate is likely to move closer to 4.7%-4.8% over the balance of the year...and yes...still remain below the average of the '70s, '80s, and '90s

**Visitors (Foreign)**—likely to come in droves in coming months, especially from Europe and Asia...and they spend aggressively! Be nice, be kind, and invite them back

**Wall Street**—simply stated...I remain bullish on stocks

**Exports**—American exports of goods and services in '07's first quarter rose 9.8% from that of the same period a year ago, the 17<sup>th</sup> consecutive quarter of export growth. Imports (including oil) remain too high

**Youth**—my parents “came of age” with Pearl Harbor...my peers with Kennedy's assassination and Vietnam. For millions of Generations X and Y, September 11 will be forever etched into their consciousness

**JaZZ (Utah)**—now into the NBA's “Final Four” after dispatching Houston and Golden State. Can they win it all this year? Like the little train...I think we can...I think we can...I think we can

## “TEA”ser

If only we'd stop trying to be happy we could have a pretty good time.

—Edith Wharton



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